

ILLINOIS COMMERCE COMMISSION

DOCKET No. 13-0476

DIRECT TESTIMONY ON REHEARING

OF

LEONARD M. JONES

Submitted on Behalf Of

AMEREN ILLINOIS COMPANY

d/b/a Ameren Illinois

June 10, 2014

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I. INTRODUCTION

A. Witness Identification

Q. Please state your name and business address.

A. My name is Leonard M. Jones and my business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. By whom are you employed and in what capacity?

A. I am employed by Ameren Illinois Company d/b/a Ameren Illinois (“AIC” or the “Company”) as the Director of Rates and Analysis. I am responsible for supervising the administration of AIC’s tariffs, regulated pricing, the development of AIC’s cost of service studies, administration and maintenance of AIC’s tariffs, and coordinating activity on other regulatory initiatives.

Q. Please describe your educational background and relevant work experience.

A. Please see my Statement of Qualifications attached as an Appendix to this direct testimony.

B. Purpose, Scope and Identification of Exhibits

Q. What is the purpose of your direct testimony on rehearing?

A. The purpose of my direct testimony is to respond to the Illinois Commerce Commission's ("Commission") granting, in part, of the Attorney General's ("AG") application for rehearing on rate design for the residential delivery service (DS-1) class, which the Commission approved in its March 19, 2014 Order in this proceeding. My testimony also responds to the information requested in the May 20, 2014 Administrative Law Judge's Ruling.

Q. What is your recommendation on rehearing?

A. The Commission should affirm the position that it took in its March 19, 2014 Order on the design of DS-1 rates—the percentage of DS-1 revenues that AIC collects through fixed charges should remain constant at 44.8%, until such time as the issue can be revisited in a subsequent electric rate design proceeding. The Commission should reject the AG's proposed DS-1 rate design, even under a phased-in approach.

Q. Please describe the findings that support this recommendation.

A. The following findings support AIC's recommendation:

- The Commission's prior concerns over bill impacts for electric space heat customers should lead the Commission to reject the AG's proposal that 72% of DS-1 revenues be recovered through the variable Distribution Delivery Charge.
- The similarity in the costs to provide delivery service to high use and low use residential customers does not support the AG's proposal that 72% of DS-1 revenues be recovered through the variable Distribution Delivery Charge.
- The AG's proposed lower Customer Charge will unfairly result in undue bill impacts for delivery service for higher use residential customers during the colder and hotter months, even if phased-in over time.

45 • AIC's proposed customer protection mechanism (if adopted) will guard against
46 undue total bill impacts, while still allowing for the possibility of future decreases
47 in the percentage of DS-1 revenues collected through the fixed Customer Charge.

48 **Q. Are you sponsoring any exhibits with your direct testimony on rehearing?**

49 A. Yes. I am sponsoring the following exhibits:

50 • Ameren Exhibit 2.1RH: 2006 Bundled Rates and Rates Effective January 2007 -
51 Residential Bill Impact Comparisons At Various Usage Levels: General Use and
52 Homes Heated Using Electricity

53 • Ameren Exhibit 2.2RH: Docket No. 07-0165 Staff Report to the Commission

54 • Ameren Exhibit 2.3RH: Docket No. 07-0165 Initiating Order

55 • Ameren Exhibit 2.4RH: Rates Effective January 2007 and Rates Effective After
56 Docket No. 07-0165 - Residential Bill Impact Comparisons At Various Usage
57 Levels: General Use and Homes Heated Using Electricity

58 • Ameren Exhibit 2.5RH: Rates Prior to SFV Structure (07-0585) and Rates
59 Effective After (09-0306) - Residential Bill Impact Comparisons At Various
60 Usage Levels: General Use and Homes Heated Using Electricity

61 • Ameren Exhibit 2.6RH: Present Rates and Proposed Rates Under AIC's Rate
62 Design in Docket 14-0317 - Residential Bill Impact Comparisons At Various
63 Usage Levels: General Use and Homes Heated Using Electricity

64 • Ameren Exhibit 2.7RH: Present Rates and AG Rate Design at Proposed Docket
65 14-0317 Revenue Requirement - Residential Bill Impact Comparisons At Various
66 Usage Levels: General Use and Homes Heated Using Electricity

67 • Ameren Exhibit 2.8RH: Residential Frequency Distribution, 5,000 kWh Annual
68 Use Increments

69 • Ameren Exhibit 2.9RH: AIC 44.8% SFV vs AG Rate Design at Docket 14-0317
70 Revenue Requirement - Residential Bill Impact Comparisons At Various Usage
71 Levels: General Use and Homes Heated Using Electricity

72 • Ameren Exhibit 2.10RH: Delivery Service Bill Impact Comparison – Present DS
73 Rates Compared to AIC Proposed 44.8% SFV in Docket 14-0317

74 • Ameren Exhibit 2.11RH: Delivery Service Bill Impact Comparison – Present DS
75 Rates Compared to AG Rate Design at Docket 14-0317 Revenue Requirement

- Ameren Exhibit 2.12RH: Customer Protection Approach to DS-1 Price Adjustments To Customer Charge - Bill Impact Guided Limiter Adjustment to Modified SFV Design

II. BACKGROUND OF CASE

Q. What is the purpose of this proceeding?

A. The purpose of this proceeding is to examine “revenue-neutral tariff changes related to rate design of a performance-based formula rate that has been placed into effect for the utility.” 220 ILCS 5/16-108.5(e). The Company’s July 22, 2013 filing initiated this proceeding for that purpose. In its March 19, 2014 Order, the Commission approved certain revenue-neutral tariff changes related to the rate design of AIC’s Rate Modernization Action Plan - Pricing (Rate MAP-P) tariff. At the Commission’s May 8, 2014 bench session however, the Commission granted, in part, the application for rehearing submitted by the AG to hear additional evidence related to the design of delivery service rates for AIC’s residential customer class (DS-1), specifically the level of the DS-1 Customer Charge.

Q. When will the rate design changes approved in this proceeding be implemented?

A. On April 17, 2014, AIC filed its annual update to the cost inputs for Rate MAP-P. The Commission has docketed that filing as Docket No. 14-0317. The deadline for Commission action in that proceeding is December 13, 2014. The rates that result from the updated revenue requirement for Rate MAP-P will go into effect for the January 2015 billing period. In this proceeding, the Commission is required to issue its Order on Rehearing by October 4, 2014. Since the Order on Rehearing in this proceeding will be issued before the Order in Docket No. 14-0317, the Company anticipates that any further rate design changes approved in this rehearing phase will be implemented for the January 2015 billing period.

99 **Q. What is the specific issue that is the subject of rehearing?**

100 A. The specific issue that is the subject of rehearing is the percentage of DS-1 revenues that
101 AIC should recover through the fixed monthly charges (the combined total of the Meter Charge
102 and the Customer Charge¹). In its March 19, 2014 Order, the Commission concluded that AIC
103 should maintain the existing target of fixed cost recovery through fixed charges: 44.8%. *Ameren*
104 *Ill. Co.*, Docket 13-0476, Order, p. 102 (Mar. 19, 2014). On May 7, 2014, the Commission
105 granted the AG's request for rehearing, in part, to address policy issues and to build a more
106 detailed record on bill impact issues related to the use of the well-established Straight-Fixed
107 Variable ("SFV") rate design.

108 **Q. What were the parties' prior rate design proposals for the DS-1 class Customer**
109 **Charge in the initial phase of this proceeding?**

110 A. AIC originally proposed a modest increase in the percentage of DS-1 revenues recovered
111 through fixed charges: no more than 2.5 percentage points until a 50% target is reached.
112 (Ameren Ex. 2.0 (Schonhoff Dir.), pp. 22-23.) This proposal was a continuation of the use of
113 SFV rate design, which the Commission had endorsed in prior AIC rate cases. Had the
114 Commission approved that proposal in its March 19, 2014 Order, the percentage of DS-1
115 revenues that AIC would have recovered through fixed charges would have risen to 47.3% for
116 rates effective for the January 2015 billing period. The AG, on the other hand, proposed a
117 residential rate design that would drastically decrease the percentage of DS-1 revenues collected

¹ The Order in Docket No. 13-0476 approved a methodology where the Meter Charge was set equal to corresponding meter-related costs and the Customer Charge was adjusted to achieve the remaining target level of fixed cost recovery.

through fixed charges to 28%, a decrease of approximately 1700 basis points from the current percentage.²

Q. Why did AIC oppose the AG's DS-1 rate design?

A. In short, the AG's proposed rate design reversed the Commission's prior orders that explicitly encouraged and approved the use of SFV rate design for AIC's DS-1 class. The proposal rejected the Commission's prior findings that affirmed that the cost of service for the DS-1 class did not fluctuate throughout AIC's service territory based on the usage patterns of individual customers—the bedrock principle that supported the establishment of a fixed percentage of costs to be recovered through the fixed Customer Charge, in recognition that the costs to serve residential customers across AIC's DS-1 class were largely constant.

But the AG's proposal didn't just reverse prior Commission decisions; it dramatically unwound AIC's SFV rate design overnight. It immediately decreased the percentage of costs to be recovered through the fixed Customer Charge to 28%, which, by necessity, would greatly increase the volatility and amount of the volumetric-based Distribution Delivery Charge. This profound redesign of the recovery of DS-1 revenues would mean that higher-use residential customers would see much higher bills in the January 2015 billing period under the AG's proposal than under AIC's proposal.

In sum, in my opinion, the AG's rate design did not properly balance the three primary principles of rate design: cost causation, gradualism, and avoidance of undue customer bill impacts. It did not justifiably allocate the cost of service for the DS-1 class fairly and reasonably

² Target fixed cost recovery level will differ from one year to the next as class cost of service studies are updated with current cost information.

amongst the residential customers in AIC's service territory; nor did it attempt to gradually modify the existing rate design to avoid undue bill impacts for high use customers.

My direct testimony on rehearing contains further analysis of the AG's originally proposed rate design and demonstrates why the Commission should continue to reject any DS-1 rate design that decreases the current percentage of DS-1 revenues that AIC recovers through fixed charges, even if phased-in over time.

Q. What were the Commission's findings and conclusions on DS-1 rate design in its March 19, 2014 Order?

A. The Commission did not adopt AIC's proposal to increase the percentage of DS-1 revenues collected through fixed charges by 2.5 percentage points. *Ameren Ill. Co.*, Docket 13-0476, Order, p. 101 (Mar. 19, 2014). It found that the record in the initial phase of the case supported "a discontinuation of the gradual shift towards a greater SFV structure." Order, p. 101. It specifically pointed to the Commission's decision in Docket No. 13-0387, the electric rate design proceeding for Commonwealth Edison Company (ComEd), where the Commission adopted the AG's proposal to move away from a SFV rate structure. Order, p. 101. The Commission acknowledged "the merits of the AG's proposal" in the initial phase of this case, and stated that it "generally supports a rate design which encourages residential customers to reduce energy usage and increase energy efficiency." Order, pp. 101-102.

But the Commission was "not confident that the merits of the AG's proposal outweigh the negative effects on electric space heating customers," because the AG's proposal to lower the DS-1 Customer Charge "would hold higher usage residential customers responsible for a much larger portion of DS-1 revenues, including any annual increases to the DS-1 revenue requirement." Order, p. 102. This "shift" in revenues, the Commission found, had "the potential

to create rate shock for a significant number of electric space heating customers—an effect the Commission continually makes a concerted effort to avoid.” Order, p. 102. The Commission further found that the “magnitude” of the “shift” in revenues would be larger, given that the approved rate design would go into effect for the January 2015 billing period and reflect a significant rate increase from AIC’s next formula rate update case. Order, p. 102.

In addition, the Commission found that there were distinctions in the record as compared to the record in Docket No. 13-0387 (ComEd): (i) the significant adverse bill impacts for AIC’s higher usage residential customers, including electric space heating customers, caused by the AG’s proposed rate design; (ii) the continued use of SFV design for AIC’s residential natural gas customers, including those customers who take both electric and gas service from AIC; (iii) the fact that AIC was not directed by the Commission in a prior order to provide evidence on the cost of service for lower usage residential customers, as was the case in Docket No. 13-0387. Order, p. 102. The Commission concluded by directing AIC “to maintain the current percentage of fixed cost recovery through fixed charges (44.8%), with the expectation that this issue will be revisited in AIC’s next electric rate design proceeding.” Order, p. 102.

Q. When would AIC’s next DS-1 electric rate design be?

A. Section 16-108.5(e) requires AIC to make a revenue-neutral tariff filing with any proposed rate design changes every three years, as long as formula rates remain in effect. Thus, AIC would have to make its next electric rate design filing for rates effective in 2018, assuming that AIC’s formula rate remains in effect at that time.

Q. Was the Commission correct in its March 19, 2014 Order to maintain the current percentage of fixed cost recovery through fixed charges (44.8%)?

183 A. Yes and no. The Company does not take issue with the Commission's final decision—to
184 keep the status quo and maintain the current percentage of fixed costs recovered through fixed
185 charges; that was an appropriate action to avoid undue customer bill impacts and to defer any
186 decision on reversing itself on the use of SFV design in DS-1 rates.

187 But the Company takes issue with the Commission's suggestion that electric distribution
188 utilities should move away from an SFV rate structure for its residential delivery service rates,
189 even if at a gradual pace. As the Company showed in its evidence in the initial phase of this
190 proceeding, principles of cost causation do not support the recovery of up to 72% of DS-1
191 revenues through the Distribution Delivery Charge; the cost of serving residential customers just
192 doesn't differ that much across AIC's service territory based solely on variations in usages by
193 individual customers. Whether you lower the percentage of DS-1 revenues collected through the
194 Customer Charge overnight or over a number of years, the end result—a higher and more
195 volatile Distribution Delivery Charge—eventually unfairly shifts more revenue responsibility to
196 higher use residential customers. Thus, the AG's proposal, even if phased-in over time, does not
197 produce a more equitable cost sharing within the DS-1 class.

198 **Q. Has there been any evidence included in the record that supports a higher**
199 **percentage of DS-1 revenues being recovered based on customers' usage?**

200 A. No. There has not been any evidence included in the record to date that demonstrates
201 that the cost of service for lower use residential customers is demonstrably lower than the cost of
202 service for higher use residential customers. Indeed, my prior testimony demonstrates that once
203 the wires, poles, transformers, and substations are constructed, the demand that an individual
204 customer places on the delivery systems does not materially impact the cost of service.

Q. Has there been any evidence included in the record that supports the assumption that customers will use less electricity under the AG's proposed rate design?

A. No. There has not been any evidence included in the record that demonstrates that customers will change their usage patterns and somehow conserve more energy and become more energy efficient, under the AG's proposal. Indeed, the choice of rate design methodology is neutral to the class, meaning that under the AG's rate design proposal some customers will receive lower bills than they otherwise would and others will receive higher bills. If total cost is a determining factor in how much electricity that customers use, those receiving lower bills could decide to use more. The intentions behind the AG's proposal may be good; but the facts do not support them. The principles of cost causation should not be swept aside based solely on the aspirational goal that residential customers, if faced with higher and more volatile delivery charges based on usage, might be able to take steps to lower their usage.

Q. In this rehearing phase, is AIC recommending that the Commission adopt the Company's originally proposed DS-1 rate design?

A. No. Although AIC continues to believe that it is appropriate to increase the amount of DS-1 revenues collected through fixed charges, the Company does not object to the continuation of the status quo (44.8% of DS-1 revenues recovered through fixed charges), until the Commission can revisit the appropriate amount of the Customer Charge in the next electric rate redesign proceeding. As I explain below, the continuation of the status quo is consistent with the rate design principles of cost causation, gradualism, and avoidance of undue customer bill impacts. The continuation of the status quo also provides for a more even spread of future delivery service rate increases across the DS-1 class and throughout the calendar year—as opposed to the AG's proposal, which would recover more revenues from higher users and during

months when usage peaks. The continuation of the status quo also would allow for more time for the Commission to investigate the cost of service for AIC's lower use residential customers, either in the next electric rate design proceeding or in a separate Section 9-250 proceeding. *See, e.g.,* Docket No. 14-0384 (investigating the impact of an SFV rate design on low-use residential customers and requiring evidence regarding ComEd's cost of service for low-use customers). These reasons should encourage the Commission not to implement, even under a phased-in approach, the radical redesign of residential electric rates that the AG proposes.

Q. Does the continuation of the status quo mean that customers' usage will not impact the amount of their total monthly bill?

A. No. And this is an important point—AIC is not proposing that every residential customer pay the same cost for his or her electricity. The March 19, 2014 Order affirmed that only 44.8%, not 100%, of DS-1 revenues be recovered through fixed charges. Thus, a customer's variations in usage will still have a significant impact on his or her monthly delivery costs. And of course, a customer's variations in usage will continue to be a factor on his or her monthly supply costs.

Q. What evidence has AIC prepared in support of its recommendations on rehearing?

A. AIC has prepared the following evidence in support of its rehearing recommendation:

- History of AIC Residential Delivery and Power Supply Rates: The recent history of residential delivery and power supply rates shows that the Commission has designed AIC's DS-1 rates to avoid undue total bill impacts to higher use residential customers;
- History of SFV Rate Design for AIC's Residential Customers: The recent AIC rate cases also demonstrate that the Commission has encouraged and approved the use of SFV rate design for AIC's DS-1 class to moderate the bill impacts for higher use residential customers;
- Customer and Usage Composition of DS-1 Class: The best available customer data shows that 48% of the DS-1 class will pay more for delivery service under

the AG’s proposal, and that Low Income Home Energy Assistance Program (LIHEAP) customers exist in every usage category in roughly the same proportion as non-LIHEAP customers;

- Intra-class Cost of Service for DS-1 Customers: The best available cost data shows that there is not a material difference in delivery costs based on monthly variations in customers’ usage and certainly not enough to justify the AG’s proposed recovery of upwards of 72% of DS-1 revenues through the variable Distribution Delivery Charge.
- Bill Impact and Benefits of ICC Ordered DS-1 Rate Design: The Commission’s decision to maintain the status quo for the DS-1 Customer Charge better reflects the cost to service DS-1 customers, and will result in a more even and more just and reasonable spread of rate increases across the DS-1 class and on a monthly basis (i.e., customers will not get hit the hardest during higher use months, as would occur under the AG rate design.).
- Bill Impact and Problems of AG’s Proposed DS-1 Rate Design: The AG’s proposed DS-1 rate design will result in much higher bills for residential customers during times of higher usage—much higher bills that are not justified by any cost of service data or any evidence that usage can be curtailed.
- Alternative Approach to Adjusting DS-1 Customer Charge: If a change to the Customer Charge methodology is found to be warranted, the Commission can employ an alternative customer protection mechanism that can better guard against undue customer bill impacts, while still allowing for the possibility of future decreases in the amount of the DS-1 Customer charge.

III. HISTORY OF AIC RESIDENTIAL DELIVERY AND POWER SUPPLY RATES

Q. The Commission’s March 19, 2014 Order references the rate increases that AIC’s electric space heating customers faced in 2007. What events led to those rate increases?

A. In 1997, Illinois passed the Electric Service Customer Choice and Rate Relief Law. From that point through January 2, 2007, the electric residential rates of Central Illinois Light Company (“AmerenCILCO”), Central Illinois Public Service Company (“AmerenCIPS”) and Illinois Power Company (“AmerenIP”) were essentially “frozen.” Indeed, the legislation required reductions in the rates for residential customers by varying percentages during the “transition period.” Residential customers in the AmerenIP service territory saw the greatest

percentage reduction, with a 15% reduction effective August 1, 1998, and an additional 5% reduction effective May 1, 2002. During this time, charges for residential electric service were determined by the bundled rates for electric service. While residential delivery service rates were available to customers in 2002, virtually no residential customers switched from bundled rates prior to the expiration of the transition period.

Beginning in 2007, electric rates were to be unbundled so that the charge for the commodity of electricity would be stated separately from the charges for the service of delivering the electricity to the customer. In February 2005, AmerenCILCO, AmerenCIPS, and AmerenIP (collectively the "Ameren Illinois Utilities" or "AIU") filed proposed rate sheets describing a competitive procurement auction process that would take place in 2006 to establish the price of electricity supplied to customers as of January 2, 2007. Docket Nos. 05-0160, 05-0161, and 05-0162 (cons.). In January 2006, the Ameren Illinois Utilities filed proposed rate sheets for delivery service rates that also would take effect on January 2, 2007. Docket Nos. 06-0070, 06-0071, and 06-0072 (cons.). The new distribution delivery rates and market-based electricity supply charges that took effect in January 2007 caused monthly bills for residential space heating customers and other larger users to be significantly and immediately higher.

Q. Have you prepared an analysis of the increases in distribution delivery rates and supply charges that residential customers faced in early 2007?

A. Yes. Ameren Exhibit 2.1RH provides a bill impact analysis of customers at various usage levels comparing bill amounts at 2006 price levels to those faced by customers in 2007 immediately after the expiration of the transition period.

Q. What does that analysis show?

A. The annual average increase was significant, at 30% or more for many “general use” profile categories, and approximately double that for many “space-heat” usage profiles. The values are shown on page 1 of Ameren Exhibit 2.1RH. The increase estimated for January, the first month of the new rates, was even more abrupt. Many of the “general use” profiles show increases ranging from about 25% to 48% in Rate Zones I and III (then AmerenCIPS and AmerenIP, respectively), and about 60% to 153% in Rate Zone I – Metro-east and Rate Zone II (then AmerenCIPS-ME and AmerenCILCO, respectively). The impacts were even greater for customers with space-heat profiles. In each of the Rate Zones I (excluding Metro-east), II, and III, increases ranged from 72% up to 116%. Customers in Rate Zone I – Metro-east experienced increases ranging from 130% up to 210%. These effects are shown on page 2 of Ameren Exhibit 2.1RH. Rate changes estimated for August were relatively modest. In Rate Zone I (excluding Metro-east) increases ranged from about 10% up to 16%. In Rate Zone I – Metro-east, increases ranged from about 4% up to 9%. In Rate Zone II, increases ranged from about 25% up to 32%. In Rate Zone III, increases ranged from about 15% up to 20%. August bill impact details are shown on Ameren Exhibit 2.1RH, page 3.

Q. What was the reaction to the 2007 rate increases?

A. Ameren witness Mr. Craig Nelson (Ameren Exhibit 1.0RH) discusses the public’s reaction to the 2007 rate increases in January and February 2007. On March 1, 2007, the Staff issued a Report to the Commission, which recommended that the Commission enter an Order to initiate a review of all aspects of the rate design for the electric rates of the Ameren Illinois Utilities. The Staff Report pointed specifically to “[t] significant bill increases from 2006 to 2007 for Ameren Illinois utilities’ residential customers (particularly residential space heating customers) and the considerable hardship this has caused” as “render[ing] a review of the

underlying rate design to be necessary.” (March 1, 2007 Report, p. 2.) On the very next day, March 2, 2007, the Commission initiated Docket No. 07-0165 to investigate the rate design of the electric rates of the Ameren Illinois Utilities. Copies of the March 1, 2007 Staff Report and the March 2, 2007 Initiating Order are attached as Ameren Exhibits 2.2RH and 2.3RH.

Q. What was the Commission’s reaction to the 2007 rate increases?

A. The Commission approved rate design modifications for DS-1 and DS-2 advanced by Staff and the Ameren Illinois Utilities, which were designed “to mitigate the increases faced by residential customers who use electricity to heat their homes in the winter.” *Illinois Comm. Comm’n on its own Mtn.*, Docket 07-0165, Order, pp. 22, 23 (Oct. 11, 2007). The “rate relief” for space heating customers effectively shifted a portion of the revenue responsibility away from non-summer rates for higher usage customers. Order, pp. 25-27. The Commission intended the rate design “to bring [electric space heating customers’] percentage increases in line with other customers in the residential class, thereby reducing their [] increases in the winter months by more than half....” Order, p. 27. The effective date for the rate design modifications to DS-1 and DS-2 was January 1, 2008. Order on Rehearing, p. 2 (Oct. 29, 2007).

Q. Was that an appropriate response by the Commission?

A. Yes. The changes mitigated total bill impacts experienced by larger non-summer use customers, including many electric space-heat profile customers. The rate changes experienced by customers were smoothed more evenly across the year, and shared more evenly across customer usage types.

Q. What was the immediate effect on residential distribution delivery rates and supply charges?

A. Delivery service rates were restructured to recover additional revenue in the summer and less during non-summer months. Power supply rates were restructured to recover less in the summer, more for the first 800 kWh of non-summer use, and less for non-summer use over 800 kWh.³ The net effect was an increase to summer rates, an increase to non-summer rates for the first 800 kWh of use in Rate Zones I, Rate Zone I – Metro-east, and Rate Zone II⁴, and a decrease to non-summer prices for use over 800 kWh. A bill impact comparison of bills calculated under initial prices in effect in 2007 are compared to bills under modified pricing approved in Docket 07-0165 in Ameren Illinois Exhibit 2.4RH.

Q. What is the relevance of the residential bill impacts before and after Docket No. 07-0165 to the design of DS-1 rates in this proceeding?

A. The concepts of avoiding undue customer bill impacts and rate gradualism are important, especially in times of large average rate increases. Undue bill impacts caused by rate design changes are avoidable, and can make an already difficult situation untenable.

IV. HISTORY OF SFV RATE DESIGN FOR AIC'S RESIDENTIAL CUSTOMERS

Q. What was the origin of the incorporation of SFV rate design in AIC's DS-1 rates?

A. The origin of the incorporation of SFV rate design in AIC's DS-1 rates can be traced back to the bill increases that electric space heating customers in AIC's service territory faced at the end of the electric rate freeze in January 2007. Staff and AIC both recognized that post-2006

³ Non-summer power rates for use over 800 kWh for Rate Zone I (AmerenCIPS) non-space heat customers was an exception, and was not adjusted.

⁴ Rate Zone III non-summer combined DS and power prices for the first 800 kWh of use were adjusted downward by \$0.00083/kWh, or about -0.8%.

bill increases for residential space heating customers was the Company's "most serious bill impact problem." *Illinois Comm. Comm'n on its own Mtn.*, Docket 07-0165, Order, pp. 22-23 (Oct. 11, 2007). Mitigating the bill impacts for electric space heating customers would remain a concern of the Commission in subsequent AIC rate cases and would eventually contribute to the Commission's decision to introduce SFV design for DS-1 rates.

Q. Please explain how the mitigation of bill impacts for space heating customers eventually led to the introduction of SFV design for DS-1 rates.

A. In the AIC electric rate cases that followed Docket No. 07-0165, the Commission continued to emphasize the importance of incorporating rate designs that would "restrain rate shock" for residential space heating customers "[i]n times of rapidly rising energy costs." *Cent. Ill. Light Co., et al.*, Dockets 07-0585 *et al.*, Order, pp. 281-82 (Sept. 24, 2008). In Docket Nos. 07-0585 *et al.* (the 2007 rate case), the Commission specifically ordered AIC to "consider the use of a straight-fixed-variable design" for residential space heating customers. Order, p. 282. In Docket Nos. 09-0306 *et al.* (the 2009 rate case), the Commission approved AIUs' proposals to increase the Customer Charge to increase the percentage of DS-1 revenues that are recovered through fixed charges "to move towards a 'Straight Fixed Variable' or 'SFV' approach." *Cent. Ill. Light Co., et al.*, Dockets 09-0306 *et al.*, Order, p. 283 (Apr. 29, 2010). This proposal was in part to refine the design of rates for customers using electric space heating. And the Commission encouraged the AIUs to continue to analyze whether "alternative rate designs" would be "more beneficial" for electric space heating customers. Order, p. 262.

Q. Have you also prepared an analysis of changes in residential distribution delivery rates and supply charges after Docket No. 07-0165?

393 A. Yes. DS-1 power supply prices for non-summer use over 800 kWh were deeply
394 discounted for Rate Zone I – Space-heat, Rate Zone I – Metro-east, Rate Zone II, and Rate Zone
395 III – Space-heat in Docket No. 07-0165. That same power supply price structure remained
396 unchanged through Docket No. 07-0585. Implementing the SFV structure in the 2009 rate case
397 provided room to adjust delivery service rates in conjunction with power supply rates, allowing
398 for reasonable total bill rate changes while moving toward cost-based rates.

399 Ameren Exhibit 2.5RH shows the results of rate change implemented in the 2009 rate
400 case. In the May 6 Corrected Order in Docket No. 09-0306, DS-1 increases were 11.9%, 2.7%,
401 and 5.2% for Rate Zones I, II, and III, respectively. These rate changes are reflected in Ameren
402 Exhibit 2.5RH, in addition to power supply rate changes implemented at the same time. Power
403 supply rate changes were revenue neutral, meaning that they recovered the same amount to total
404 revenue before and after the adjustments. The combined DS-1 Customer and Meter charges
405 were set equal to \$17.00 for each Rate Zone. A delivery services non-summer usage block for
406 use over 800 kWh was also established. The price set for that usage block was discounted from
407 the price applied to the first 800 kWh of non-summer use. At the same time, residential non-
408 summer power supply rates were restructured. As delivery service rates were established, power
409 supply rates were also adjusted so that the total change in non-summer prices for use over 800
410 kWh did not exceed approximately 13%.

411 As shown in Ameren Exhibit 2.5RH, page 1, the annual bill change to the smallest (5,000
412 kWh) “general use” profile was \$55 in Rate Zone I, \$42 in Rate Zone II, and \$34 in Rate Zone
413 III. In the general use category, most customers received power supply rate decreases, offset by
414 delivery service increases. The opposite was true for the space-heat category. Many space-heat
415 customers received power supply increases, partially offset by delivery services decreases such

that the total bill effect was a modest increase slightly above that for general use customers.

Pages 2 and 3 show the rate change effect estimated for January and August, respectively.

Q. How has the introduction of SFV design in DS-1 rates impacted residential total bills since Docket No. 07-0165?

A. Since its initial introduction in Docket No. 09-0306, continuation of SFV has had little incremental impact on customers. After SFV design was implemented in May 2010, subsequent Delivery Service rate changes have been applied under the formula rate structure.⁵ The customer and meter charges have been adjusted by an amount equal to the overall residential rate change, and variable delivery charges have been adjusted in equal proportions within each Rate Zone to achieve the remaining revenue target after adjustments to the Customer and Meter Charges have been taken into account. Since 2010, overall DS-1 rate structure has not changed, and individual price components have not experienced significant structural changes.

Q. Has the structure of power supply prices changed since Docket No. 09-0306?

A. Yes. After power supply prices were redesigned in Docket No. 07-0165, subsequent changes to prices were applied on an across-the-board basis unless Commission approval was granted to do otherwise. Such approval was granted in Docket No. 09-0306 for rates effective in May 2010, as previously discussed. In 2012, a power supply tariff change was approved that allowed a systematic increase to discounted residential power prices for non-summer use over 800 kWh. More will be said about this methodology later, but the net effect is that residential customers using a large amount of electricity in non-summer periods have received power supply

⁵ Relatively minor adjustments were made to variable delivery charges after the conclusion of the rehearing proceeding for Docket 09-0306 in November 2010.

436 increases effective in June 2012, and in June 2013, while smaller use customers have received
437 decreases.

438 **Q. Why is it important for the Commission to consider the residential bill impact for**
439 **different customer usage profiles?**

440 A. Examining a wide variety of profile types helps identify potential undue bill impacts,
441 which in turn allows proper corrective action to be taken prior to implementation, if necessary.

442 **Q. Why is it important for the Commission to also consider the changes in residential**
443 **supply charges when designing residential delivery service rates?**

444 A. Residential customers pay total bills, not just a delivery service bill. A change in one
445 component viewed in isolation may lead to a false assumption that bill impacts are more or less
446 severe than they are when considered together.

447 **Q. Why would the continuation of SFV design for DS-1 rates be beneficial for**
448 **residential customers and specifically electric space heating customers?**

449 A. A SFV design is cost-based, better aligning prices customers pay for service with costs
450 incurred to serve a customer. Also, as I discuss in more detail below, the obvious benefit to large
451 use customers, including many electric space heating customers, is the avoidance of undue bill
452 impacts that would occur under the AG rate design. In general, customers with annual usage
453 greater than the average use (about 10,000 kWh) will be responsible for a lower percentage of
454 DS-1 revenues under AIC's proposed rate design. This design thus results in lower bills for
455 electric space heating customers in the coldest months. But the continuation of SFV design also
456 more evenly spreads out the impact of incremental rate increases over the calendar year, whereas

the AG's proposed design will lead to higher bills for many more residential customers in the coldest and also the hottest months.

Ameren Exhibits 2.6RH and 2.7RH show the difference in annual 2015, January 2015 and August 2015 bills for various customer profiles, if the Commission was to adopt either the AIC's or AG's proposed rate design, respectively. I note that the percentage of delivery service increase under AIC's rate design is relatively even across profile types on annual, peak winter, and peak summer basis. On an annual basis, delivery service increases range from 28.5% or \$6.88 per month for a general use customer using 5,000 kWh up to 31.5% or \$25.71 per month for a space heat customer using 60,000 kWh in Rate Zone I. Conversely, under the AG's rate design, delivery service increases vary widely ranging from 14.4% or \$3.48 per month for a general use customer using 5,000 kWh up to 57% or \$46.53 per month for a space heat customer using 60,000 kWh in Rate Zone I.

Q. How do estimated January bill impacts compare?

A. The percentage of delivery service increase under AIC's rate design is relatively even across profile types. For example, delivery service increases range from 28.0% or \$5.47 in the month for a general use customer using 290 kWh (5,000 kWh annually) up to 32.1% or \$25.88 in the month for a space heat customer using 8,523 kWh (60,253 kWh annually) in Rate Zone I. Conversely, under the AG's rate design, delivery service increases vary widely ranging from 0.1% or \$0.01 in the month for a general use customer using 290 kWh (5,000 kWh annually) up to 55.4% or \$44.62 in the month for a space heat customer using 8,523 kWh (60,253 kWh annually) in Rate Zone I.

478 **Q. How do estimated August bill impacts compare?**

479 A. The percentage of delivery service increase under AIC's rate design is relatively even
480 across profile types. Delivery service increases range from 28.9% or \$9.32 in the month for the
481 space-heat customer using 634 kWh (10,000 kWh annually) up to 31.2% or \$41.20 in the month
482 for a space heat customer using 4,327 kWh (60,253 kWh annually) in Rate Zone I. Conversely,
483 under the AG's rate design, delivery service increases vary widely ranging from 29.3% or \$9.45
484 in the month for the space-heat customer using 634 kWh (10,000 kWh annually) up to 64.5% or
485 \$85.25 in the month for a space heat customer using 4,327 kWh (60,253 kWh annually) in Rate
486 Zone I.

487 **Q. Do these differences account for potential bill impacts that could be caused by**
488 **unusually extreme weather?**

489 A. No. The bill impacts in Ameren Exhibits 2.6RH and 2.7RH compare price differences
490 against the same usage in each month.

491 **Q. How would bill impacts differ under increased usage induced by extreme**
492 **temperatures in either the summer or winter?**

493 A. The AG rate design would add additional expense to customer bills in periods of
494 increased, since monthly variations in customer usage produce higher Distribution Delivery
495 Charges and more volatile bill impacts under the AG's proposal. As discussed by Mr. Nelson, a
496 portion of the undue bill impact in 2007 was caused by colder than usual winter temperatures
497 increasing usage above normal expectations. Customers' bills in January 2015 (or August 2015)
498 would be incrementally higher, if usage was higher, under the AG's rate design.

For example, comparing February 2013 usage data for residential customers to that experienced in February 2014 shows that usage was *30% higher in February 2014*. The incremental use would be assessed not only the greater DS rate, but also power supply and transmission rates. For a Rate Zone III space-heat customer using 4,000 kWh in the non-summer, the AIC delivery service proposed prices would cost the customer \$16.51 more. If the amount were raised another 1,200 kWh to account for 30% more weather induced usage, the bill would increase another \$81.95, for a total increase of \$98.45. Under the AG rate design, the 4,000 kWh will cost the customer \$30.65 more, and the 1,200 kWh of weather induced usage would add \$87.90, raising the customer's cost by \$118.54.

The situation is no better under extreme summertime conditions. Comparing July 2013 usage data for residential customers to that experienced in July 2011 showed that customers used over 30% more in July 2011. Again, the incremental use would be assessed not only the greater DS rate, but also power supply and transmission rates. For a Rate Zone III customer using 2,000 kWh in the summer, the AIC delivery service proposed prices would cost the customer \$18.36 more. If the amount were raised another 600 kWh to account for 30% more weather induced usage, *the bill would increase another \$53.87, for a total increase of \$72.23*. Under the AG rate design, the 2,000 kWh will cost the customer *\$34.36 more*, and the 600 kWh of weather induced usage *would add \$60.89, raising the customer's cost by \$95.24*.

V. CUSTOMER AND USAGE COMPOSITION OF DS-1 CLASS

Q. Have your prepared any data that groups residential customers by usage levels?

A. Yes. Ameren Exhibit 2.8RH identifies a frequency distribution of annual DS-1 customer usage in 5,000 kWh increments. Page 1 shows the number of customers within each use category, page 2 shows the percentage of total customers for those falling within the category

based on page 1 values, page 3 shows the cumulative count of customers within each use category, and page 4 shows the cumulative percentage based on page 3 counts.

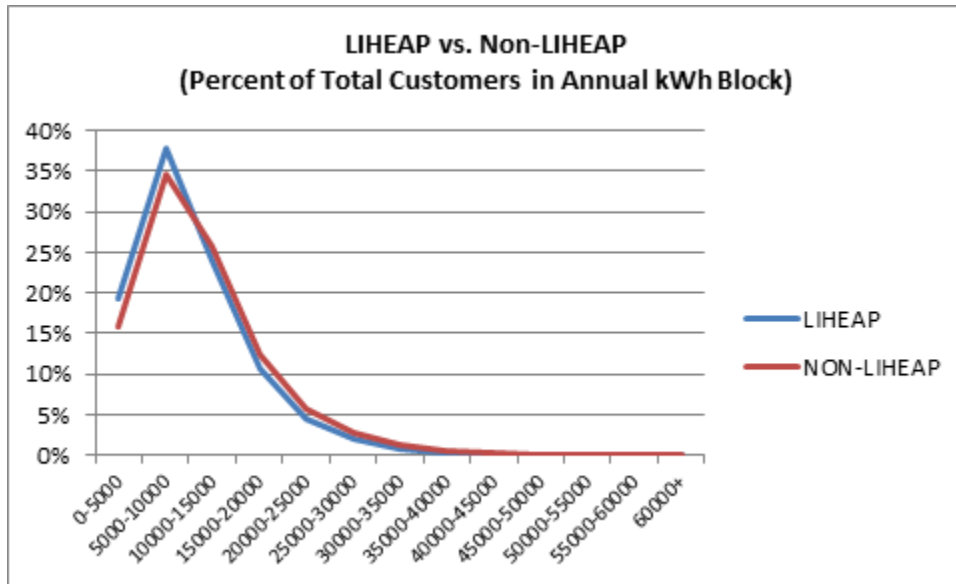
Q. What does that customer data show?

A. The customer data shows that about 46% of DS-1 customers have annual usage in excess of 10,000 kWh (see page 4). In Rate Zone I and III, unique, premises-level electric space-heat indicators have been retained from bundled rate tariffs in effect prior to 2007 and used for billing power supply rates to these customers since late 2007.⁶ For those categories, approximately 72% and 60%, respectively, of customers use more than 10,000 kWh annually.

Q. Can you estimate the percentage of Low Income Home Energy Assistance Program (LIHEAP) customers in various usage levels?

A. Yes. Based on calendar 2013 information, customers accepting LIHEAP exist in nearly every usage category in nearly the same proportion as non-LIHEAP customers. This means that LIHEAP customer's usage levels vary much like general use customers; it's a fallacy to believe that LIHEAP customers use less energy than the average residential customer. The chart below compares the percentage of LIHEAP customers in each usage interval to the percentage of non-LIHEAP customers in each usage interval. As shown, the two groups exhibit similar usage distributions.

⁶ In Rate Zone I, former AmerenCIPS customers served under bundled service rates in conjunction with Rider 5, a special electric space-heat provision, and in Rate Zone III, former AmerenIP customers served under bundled service rates in conjunction with electric space-heat provisions.



539

540 **Q. What does that usage data suggest?**

541 A. Electric consumption is not necessarily a function of income. Low income customers
 542 exist in every usage category, including usage categories of 50,000 kWh per year and greater.
 543 Not all large use customers own a “penthouse condominium” as suggested in the AG’s briefing.

544 **Q. Is there any evidence to suggest that the usage data is inaccurate?**

545 A. No. I have reviewed the Company’s last filed Annual Report of Electric Meter Sample
 546 Plan, and the Company is in compliance with 83 Illinois Administrative Code Part 410, Subpart
 547 B. All of the sample lots passed. In addition, the Company recently conducted a special random
 548 sample of 221 meters for residential customers using more than 20,000 kWh per year. Again,
 549 the sample met the tolerances established in the administrative code. The evidence validates the
 550 accuracy of the usage data.

Q. Have you also prepared an analysis of the bill impacts that the different customer profiles would face under the AG's proposed rate design?

A. Yes. Ameren Exhibit 2.9RH shows calculations of DS-1 bill amounts that would recover the revenue requirement proposed in Docket No. 14-0317, comparing values under the retention of the 44.8% SFV and implementation of the AG's rate design. The exhibit is an update to Ameren Exhibit 7.1 provided during the initial phase of this Docket, replacing a hypothetical increase with the actual proposed increase in Docket No. 14-0317.

Q. Which customer profiles in the DS-1 class would see higher annual delivery service bills under the AG's proposed rate design?

A. For "general use" customers (i.e., those not heating homes using electricity), customers using less than 10,000 kWh per year tend to benefit under the AG rate design while customers using more than 10,000 kWh tend to pay more under the AG rate design. For "space heat" customers (i.e., those using electricity to heat their homes), customers using 10,000 kWh tend to be slightly better off under the AG rate design, while those using 18,000 kWh tend to be worse off. The "break-even" point for customers using relatively more non-summer electricity thus is above 10,000 kWh but well below 18,000 kWh. The common theme between the general use and space heat categories is that as usage increases above the "break-even" point, the impact of the AG rate design becomes more harmful.

Q. What percentage of the DS-1 class would these customer groups represent?

A. Percentages may be derived from Ameren Exhibit 2.8RH. Using Rate Zone I and Rate Zone III non-space heat categories as a guide for the "general use" category, approximately 22% of general use customers use at or below 5,000 kWh, another 37% use between 5,000 kWh and

10,000 kWh, about 25% use between 10,000 kWh and 15,000 kWh, about 14% use between 15,000 kWh and 25,000 kWh, and about 3% use more than 25,000 kWh.

Again using Rate Zone I and Rate Zone III data, but this time for electric space-heat categories, approximately 35% of space-heat customers use 10,000 kWh or less, about 22% use between 10,000 kWh and 15,000 kWh and another 16% use between 15,000 kWh and 20,000 kWh, about 12% use between 20,000 kWh and 25,000 kWh, approximately 11% use between 25,000 kWh and 35,000 kWh, about 3.5% use between 35,000 kWh and 60,000 kWh, and less than 1% use more than 60,000 kWh.

VI. INTRA-CLASS COST OF SERVICE FOR DS-1 CUSTOMERS

Q. Do you continue to believe that delivery costs do not change based on variations in monthly usage?

A. Yes. There is no monthly variable cost element to delivery service costs, other than the Illinois Electric Distribution Tax. Delivery service assets are already in place, and stand ready to serve customers' demands regardless of when they occur. The facilities, and associated costs, do not fluctuate to fit a customer monthly demand, but instead remain the same throughout the year.

Q. What evidence did AIC submit in the initial phase of this proceeding in support of this expert opinion?

A. In my rebuttal and surrebuttal testimonies, I pointed out the flaws of AG witness Mr. Scott Rubin's analysis, in which he grouped the residential class into 20 different usage categories, starting with the 5% of smallest use customers ranging up to the largest. His analysis assumed that the cost allocated to a class based on demand is directly linear within the class as one examines various groupings of customers. The method for allocating common costs to

individual rate classes is inadequate for examining how costs are incurred to serve multiple subgroups within the residential class. The distribution system is designed to serve the expected peak of the customer at the time facilities are installed. Whether the customer chooses to use an amount lower than the expected or design peak demand does not change the costs of facilities installed. Once installed, the costs are fixed. Under Mr. Rubin's analysis, a customer with zero use would not be responsible for any demand-related costs, even though the home is connected to the distribution system that stands ready to serve a design demand. Under Mr. Rubin's rate design, costs for infrastructure, such as in line transformers, primary line, secondary line, poles, and distribution substations incurred to serve the customer would go unrecovered from that customer. The proposed continuation of the modified SFV rate design would recover at least a portion of these costs from all customers. (*See Ameren Ex. 7.0, pp. 20-21.*)

Q. What examples help illustrate this opinion?

A. Utility poles, for example, are capital costs and are recorded as a fixed asset and booked accordingly. Once installed, the cost of utility poles does not vary with customer usage. Imagine a residential subdivision of 50 residential customers. The cost of poles serving those customers does not change as usage changes through the day, through the summer or winter seasons, or from one year to the next. The same number of utility poles will be in place throughout the year. (*See Ameren Ex. 4.0, p. 26*)

Q. Have you discussed this opinion with AIC's distribution planners?

A. Yes. The discussion focused on the distribution system from the primary line down to the customer's meter.

616 **Q. What have you learned from those discussions?**

617 A. Costs for the primary line system on down to the customer's meter are not influenced by
618 a residential customer's actual monthly usage, annual usage, or fluctuations usage over multiple
619 years. Once installed, those usually facilities do not change. The facilities are adequate to serve
620 a wide range of usage, especially usage observed in the residential sector. When asked about a
621 hypothetical general use electric customer, one that heats their home using a fuel source other
622 than electricity, using about 10,000 kWh were to convert to using electricity to heat their home,
623 raising their annual use to 50,000 kWh, if that would require any change in facilities to serve the
624 customer, the answer was "no", except perhaps for a check to make sure that the line transformer
625 serving the customer's premises was adequate to serve the customer. It is possible that the larger
626 use customer would require the next largest size transformer to be installed at a customer's
627 location, the most likely exchange would be from a 25 to a 50 kVa rated transformer. But the
628 larger transformer is typically no more costly than the smaller transformer, indicating that the
629 cost of serving the larger load is no different than the smaller load. In the Company's class cost
630 of service study provided in Docket No. 14-0317, costs for the primary line system down
631 through the customer's meter represent about 70% of the DS-1 revenue requirement. The 44.8%
632 SFV is certainly supported by cost of service results, and leaves plenty of room to reconsider
633 increasing in a future proceeding.

634 **Q. Is this opinion also consistent with the Commission's rate design for AIC's**
635 **residential natural gas rates?**

636 A. Yes. In Docket No 13-0192, the Commission approved the continued use of SFV design
637 for the gas residential (GDS-1) class to collect 80% of the final GDS-1 revenue requirement
638 through fixed charges. *Ameren Ill. Co.*, Docket 13-0192, Order, pp. 194-195 (Dec. 18, 2013).

This latest decision affirmed again the Commission's position that AIC's costs to distribute gas service were largely fixed and the Commission's "established" policy that the majority of the fixed costs should be recovered through fixed charges. *Ameren Ill. Co.*, Docket 11-0282, Order, p. 144 (Jan. 10, 2012). The Commission specifically rejected the use of a rate design for gas residential rates that would recover a higher percentage of costs through the variable per-therm distribution charge, because movement away from SFV design—even if a small step—would cause too large of a rate increase for higher use, gas-heating customers. Order, p. 194.

Q. Has the Commission directed AIC to provide additional information on the cost of service for heating and non-heating natural gas customers?

A. Yes. In Docket No. 13-0192, the Commission directed AIC to provide, at the time of its next natural gas rate case filing, cost of service information that the parties would analyze to determine whether the heating and non-heating GDS-1 customer subclasses could and should be created to reflect any distinct differences in cost of service. *Ameren Ill. Co.*, Docket 13-0192, Order, p. 195 (Dec. 18, 2013).

Q. Was AIC under a similar order from the Commission to provide cost of service data for heating and non-heating electric customers prior to the initiation of this proceeding?

A. No.

Q. Was that a distinguishing factor from the decision that the Commission reached in Docket No. 13-0387 (ComEd)?

A. Yes. In Docket No. 13-0387, the Commission found that ComEd failed to define a low-use customer class and had failed to provide cost of service data specific to low use customers, notwithstanding a prior ruling from the Commission to provide such information. *ComEd*,

661 Docket 13-0387, Order, p. 73 (Dec. 18, 2013). In its March 19, 2014 Order in the initial phase of
662 this case, the Commission recognized that distinguishing factor.

663 **Q. Has the Commission subsequently directed ComEd to provide evidence regarding**
664 **the cost of service for low-use customers?**

665 A. Yes. The Commission has directed Staff to initiate a proceeding under Section 9-250 to
666 investigate the impact of the SFV rate design on low-use residential customers, and has directed
667 ComEd to provide evidence regarding cost of service for low-use residential customers. *See*
668 Initiating Order and March 6, 2014 Staff Report to the Commission, Docket No. 14-0384.

669 **Q. Absent evidence in the record that demonstrates a material difference in delivery**
670 **costs for high-use and low-use residential customers, should the Commission shift more**
671 **revenue responsibility to high-use residential customers?**

672 A. No. It would be premature and without evidentiary basis to unwind SFV design and
673 decrease the Customer Charge, even if at a slower pace than what the AG proposed, based on the
674 aspirational goal that more volatile and higher Distribution Delivery Charges will cause
675 customers to use less electricity. Maintaining the status quo will give the Commission more time
676 to investigate the impact of the SFV rate design on low-use residential customers in AIC's
677 service territory direct AIC to provide evidence regarding cost of service for low-use residential
678 customers, either prior to the next Section 16-108.5(e) electric rate design proceeding or in a
679 separate Section 9-250 proceeding.

680 **Q. Are there existing programs that already encourage and promote energy efficiency?**

681 A. Yes. Ameren Illinois has extensive energy efficiency programs, conducted pursuant to
682 Section 8-103 and Section 16-111.5B of the Act. Together, electric energy efficiency spending

is projected to be over \$80 million over the next year. Spending on the residential class alone is projected to be about \$37 million. A few of the residential programs are appliance recycling, lighting, and measures targeted to moderate income customers. Costs for programs are recovered through Rider EDR – Energy Efficiency and Demand-Response Cost Recovery. The residential charge applicable for the current June 2014 through May 2015 program year is 0.312¢/kWh applicable to all delivered kWh. The only means to reduce Rider EDR charges is to use less energy.

Q. Do customers retain a price signal to conserve usage under the 44.8% SFV rate design?

A. Yes. The residential class is still receiving 55.2% of their delivery service charges through variable charges. Under the approved 44.8% SFV rate design, variable delivery service charges are still increasing. The large “general use” customer profile using 26,252 kWh per year would receive 73% of their delivery charges through variable rates under AIC’s proposed 44.8% SFV rate structure in Rate Zones I and II. In Rate Zone III, the value increases to 77%. Moreover, customers also pay a variable based power supply and transmission service rate. When those charges are included, the variable portion of the bill increases to 89% for the 26,252 kWh customer in Rate Zones I and II, and 90% in Rate Zone III. Customers still have plenty of price induced incentive to lower usage to lower their bills.

VII. BILL IMPACT AND BENEFITS OF ICC ORDERED DS-1 RATE DESIGN

Q. Have you prepared an analysis of the impact on residential customers’ total bills in January 2015, based on AIC’s as-filed revenue requirement in Docket No. 14-0317, if the Commission affirms its March 19, 2014 Order and maintains the status quo?

705 A. Yes. Ameren Exhibit 2.10RH shows a frequency distribution of percentage change in
706 delivery service costs for 6 different supply service categories: Rate Zone I – Metro-east, Rate
707 Zone I – Space-heat, Rate Zone I – non-space heat, Rate Zone II, Rate Zone III – Space-heat, and
708 Rate Zone III – non-space heat.

709 **Q. What does that analysis tell us?**

710 A. The distribution of delivery service increases is clustered around the average increase for
711 the rate class. The class average increase for Rate Zone I is about 30%. In the Metro-east area,
712 26% of customers are expected to see a rate increase between 25% and 30% and 74% of
713 customers are expected to see a rate change between 30% and 35%. For Rate Zone I – space-
714 heat, 5% of customers fall in the 25% to 30% range, 71% within 30% to 35%, and 24% fall
715 between 35% and 40% increases. In the Rate Zone I – non-heat category, 18% of customers fall
716 between 25% and 30%, 78% between 30% and 35%, and 3% between 35% and 40%.

717 The class average increase for Rate Zone II is nearly 18%. In Rate Zone II, 9% of
718 customers are expected to have increases falling between 10% and 15%, 71% between 15% and
719 20%, and 20% between 20% and 25%.

720 The class average increase for Rate Zone III is nearly 23%. For Rate Zone III – space-
721 heat, 98% of customers are expected to fall between 20% and 25%, and 2% within 25% to 30%.
722 In the Rate Zone III – non-heat category, 95% of customers are expected to fall between 20%
723 and 25%, and 5% within 25% to 30%.

Q. What are the benefits of the Commission maintaining the status quo?

A. Retaining the existing DS-1 rate structure will help avoid undue customer bill impacts at a time when costs are rapidly increasing. The rate structure is also cost based, and performs better at aligning cost recovery from those causing the cost to be incurred.

VIII. BILL IMPACT AND PROBLEMS OF AG'S PROPOSED DS-1 RATE DESIGN

Q. Have you also prepared an analysis of the impact on residential customers' total bills in January 2015, based on AIC's as-filed revenue requirement in Docket No. 14-0317, if the Commission reverses its position and adopts the AG's proposal?

A. Yes. Ameren Exhibit 2.11RH shows a frequency distribution of percentage change in delivery service costs based on the AG rate design for 6 different supply service categories: Rate Zone I – Metro-east, Rate Zone I – Space-heat, Rate Zone I – non-space heat, Rate Zone II, Rate Zone III – Space-heat, and Rate Zone III – non-space heat.

Q. What does that analysis tell us?

A. Delivery service increases are widely varied across customers. Some customers receive little increase (and some with little or no use would receive a decrease up to 24%) while others will receive large percentage and dollar increases (generally those with above average usage ranging upwards of 70% in Rate Zone I). In the Rate Zone I – Metro-east area, only 28% of customers fall between 25% and 35% increases, whereas under the AIC approach, nearly 100% of customers fall in the range. For Rate Zone I – space-heat, only 33% of customers fall between 30% and 40% increases, whereas under the AIC approach, 95% of customers fall in the range. In the Rate Zone I – non-heat category, only 26% of customers fall between 25% and 35% increases, whereas under the AIC approach, 96% of customers fall in the range.

In Rate Zone II, only 42% of customers fall between 15% and 25% increases, whereas under the AIC approach, 91% of customers fall in the range.

For Rate Zone III – space-heat, 32% of customers are expected to fall between 20% to 30% increases, but under the AIC approach, 100% of customers fall in the range. In the Rate Zone III – non-heat category, 34% of customers are expected to fall between 20% to 30% increases, where under the AIC approach 100% of customers fall in the range.

Q. What are the problems associated with adopting the AG’s proposal?

A. Implementing the AG approach leads to undue bill impacts, with some larger use customers experiencing significant DS and total bill increases.

IX. ALTERNATIVE APPROACH TO ADJUSTING DS-1 CUSTOMER CHARGE

Q. In its March 19, 2014 Order, the Commission found that there was insufficient evidence in the record to implement “a phased-in approach” to the AG’s proposal. What do you think that the Commission might have been contemplating as “a phased-in approach” to the AG’s proposal?

A. The March 19, 2014 Order does not give any specific details as to what the Commission may have been contemplating as a possible “phased-in” approach to the AG’s initial proposed DS-1 rate design. It is possible, however, that the Commission was contemplating a simplified “phased-in approach” to the AG’s proposal where the percentage of DS-1 delivery revenues to be recovered through fixed charges is gradually and equally lowered over a number of years.

Q. Is AIC advocating a simplified “phased-in approach” in its rehearing direct case?

A. No. Let me be clear that AIC is not advocating that the Commission reverse its course on the use of SFV rate design for AIC’s DS-1 customers. Our position remains that the cost to

serve residential customers does not vary by usage; thus, 72% of the DS-1 revenues should not be recovered based on variations in usage, as the AG proposed in the initial phase of this case. The adoption of the AG's proposed rate design, even if phased-in over a period of years, would be inconsistent with cost causation principles.

Q. The Commission also suggested that “a phased-in approach” to the AG’s proposal “could potentially” address “concerns” about the “potential to create rate shock” for electric space heating customers. Do you believe that “a phased-in approach” to the AG’s proposal could avoid “rate shock” for electric space heating customers?

A. Whether a rate design avoids or causes undue customer bill impacts depends on a number of factors, including whether you are looking at the total bill impact or the change in delivery service rates, the amount of the class average increase that the Commission ultimately approves, the monthly variations in a customer's usage, and the amount of DS-1 revenues that the Commission approves for recovery through the Distribution Delivery Charge.

The DS-1 rate design proposed by the AG in the initial phase of the case causes a much greater dispersion of percentage changes—some lower, some greater—compared to the AIC design. We know that the AG's design decreases fixed charges and increases variable delivery service charges to compensate. AIC's design changes prices by a more uniform percentage. Applied to customer bills, this means that larger usage customers will tend to experience a greater than average rate increase under the AG rate design. This will lead to more customers experiencing undue customer bill impacts (i.e., more customers receiving above class average increases on top of an already sizeable increase), largely depending on their monthly usage. Electric space heating customers are likely to see higher bills in the colder months. And many more customers are likely to see higher bills in the warmer months. A “phased-in” approach

may unwind SFV design more slowly than what the AG initially proposed. But ultimately, as the percentage of DS-1 revenues collected through fixed charges decreases, more and more revenue responsibility is shifted to higher use residential customers.

Q. What else would a simplified phased-in approach ignore?

A. A simplified approach ignores bill impacts that may be negatively affecting customers from non-delivery service sources. That is, changes to power supply and/or transmission rates may coincide with changes to delivery service rates that when taken together cumulatively result in undue customer bill impacts.

Q. Assuming the Commission decides to decrease the Customer Charge (contrary to what the Company is recommending) have you developed an alternative mechanism that would protect residential customers from undue total bill impacts?

A. Yes. The methodology involves evaluating annual rate changes in major bill components: delivery service, power supply, and transmission service rates.

Q. How would the alternative customer protection mechanism work?

A. The delivery service, power supply, and transmission service rates applicable during the previous January and applied to 12 different customer usage profiles would be compared to the delivery service, power supply, and transmission service revenue for the same 12 profiles at prices applicable for the upcoming January. If the annual change in total bills for any one of the profiles exceeds 7.5%, no change to the SFV percentage would occur. If all of the 12 profiles show an annual average change less than 7.5%, the fixed charge recovery will be reduced until a profile reaches a 7.5% increase or the percentage of fixed cost recovery is reduced to the AG's target level. Uniform Customer and Meter Charges among Rate Zones are to be retained.

For example, in setting DS-1 prices for this upcoming January 2015, bills for each of the 12 profiles at annual rates as of January 2014 would be compared to bills for each of the 12 profiles at annual rates expected in January 2015. The rates for power supply (Rider BGS - Basic Generation Service) and transmission service (Rider TS – Transmission Service) are set prior to each June, leaving delivery service prices as the only variable. The starting point for delivery service pricing would be the design using the last approved SFV percentage. As indicated above, uniform Customer and Meter Charges among Rate Zones would be retained. Also, if the annual change in total bills for any one of the profiles exceeds 7.5%, no change to the SFV percentage would occur. If all of the 12 profiles show an annual average change less than 7.5%, the fixed charge recovery will be reduced until a profile reaches a 7.5% increase or the percentage of fixed cost recovery is reduced to the AG’s target level. Ameren Exhibit 2.12RH provides additional detail on methodology steps, and performs the calculation for delivery service rates proposed in Docket No. 14-0317. Page 1 contains more methodology detail and a summary of results, page 2 shows 2014 prices and 2015 prices, page 3 shows resulting “total bills” calculated for each profile and each supply category within each Rate Zone.

Q. What are the benefits of the alternative customer protection mechanism?

A. The customer protection approach appropriately considers bill impacts that may be negatively affecting customers from non-delivery service sources in addition to delivery service changes. That is, changes to power supply and/or transmission rates that coincide with changes to delivery service rates are appropriately considered, reducing the chance of experiencing undue customer total bill impacts.

Q. Can any analogies be drawn between your proposal and other existing rate mechanisms?

A. The concept has been previously approved by the Commission for use in the Company's Rider PER – Purchased Electricity Recovery to establish power supply rates for customers taking Ameren Illinois provided power (through Rider BGS). The Rider PER design mechanism was developed with the intent of removing discounted non-summer prices for use over 800 kWh. That method employed a similar annual price change limiter where if any of the 12 use profiles experienced more than a 7.5% increase, price movement ceased.

Q. If the Commission adopted the alternative customer protection mechanism, would there be any change in the SFV percentage for DS-1 rates effective for the January 2015 billing period?

A. No. I have modeled the change in delivery service prices, retaining the 44.8% SFV structure, and the change in power supply and transmission service prices for each of the 12 profiles in Ameren Exhibit 2.12RH. The increase for 10 of the 12 profiles in Rate Zone I – Metro-east exceeds 7.5%, as do 3 profiles within Rate Zone I and 2 profiles within Rate Zone III. Because a profile exceeded a 7.5% increase, no adjustment can be made.

Q. What are the usage levels within the 12 usage profiles?

A. Each profile is shown in the table below:

Profile	Monthly kWh Usage Profile		
	Summer	Oct & May	Nov-Apr
1	2,000	1,500	4,500
2	2,000	1,200	3,000
3	2,000	800	2,000
4	2,000	800	1,000
5	1,200	1,500	4,500
6	1,200	1,200	3,000
7	1,200	800	2,000

8	1,200	800	1,000
9	800	1,500	4,500
10	800	1,200	3,000
11	800	800	2,000
12	800	800	1,000

852

853 **Q. Why are these 12 usage profiles appropriate for setting delivery service rates?**

854 A. The 12 profiles are the same as those used today in Rider PER, and cover a wide variety
855 of customer usage types, including those heating their homes using electricity. The customer
856 types are also the most vulnerable to increases to variable (per kWh) charges, and thus are the
857 customers most susceptible to potential undue bill impacts.

858 **X. CONCLUSION**

859 **Q. Does this conclude your direct testimony on rehearing?**

860 A. Yes, it does.

APPENDIX

**STATEMENT OF QUALIFICATIONS OF
LEONARD M. JONES**

I graduated from Western Illinois University with a Bachelor of Arts Degree in Economics in 1987. In 1988, I received a Master of Arts Degree in Economics, also from Western Illinois University. From 1988 through 2004 I was employed by Illinois Power Company ("Illinois Power") as a Rate Analyst, Senior Rate Analyst, Rate Specialist, Team Leader - Costing and Economic Services, and Director – Business Planning and Forecasting. Shortly after completion of Ameren Corporation's ("Ameren") acquisition of Illinois Power, I became Managing Supervisor – Restructured Services, Regulatory Policy and Planning. In 2008, I was promoted to my current position.

I previously testified before the Illinois Commerce Commission in Docket No. 91-0335, regarding Illinois Power's electric marginal cost of service study; Docket No. 93-0183, regarding Illinois Power's gas marginal cost of service study; Docket No. 98-0348, regarding Illinois Power's proposed Rider DA-RTP II; Docket No. 98-0680, regarding the investigation concerning certain tariff provisions under Section 16-108 of the Public Utilities Act and related issues; Docket No. 98-0769, regarding requirements governing the form and content of contract summaries for the 1999 Neutral Fact Finder; Docket Nos. 99-0120 & 99-0134 (Cons.) regarding approval of Illinois Power's Delivery Service Implementation Plan and Tariffs; Docket Nos. 00-0259/00-0395/00-0461 (Cons.) regarding proposed Rider MVI and revisions to Rider TC; Docket 01-0432 regarding electric Delivery Service Tariff rate design and related matters; Docket 04-0476 regarding gas rate design; Docket Nos. 06-0070/06-0071/06-0072 (Cons.) regarding electric Delivery Service Tariff rate design and related matters; Docket Nos. 06-0691/06-0692/06-0693 (Cons.) regarding residential real-time pricing tariffs; Docket 06-0800

regarding an investigation into changes to auction process and the Ameren Illinois Utilities' market value tariffs (Rider MV); Docket 07-0165 regarding an investigation into the Ameren Illinois Utilities' rate design, Docket 07-0527 regarding tariff changes resulting from passage of the IPA Act; Docket 07-0585 – 07-0590 (cons.) regarding electric rate design; Docket 07-0539 regarding electric energy efficiency programs; Docket 08-0104 regarding gas energy efficiency programs; Docket 09-0306 – 09-0311 (cons.) regarding electric rate design; Docket 09-0535 regarding Rider EDR and GER reconciliation; Docket 10-0095 regarding tariff changes required for on-bill financing programs; and Docket 10-0517 regarding a petition for an accounting order; Docket Nos. 11-0279 and 11-0282 (Cons.) regarding electric Delivery Service Tariff rate design and related matters; Docket 11-0354 – 11-0356 (cons.) regarding reconciliation of power procurement costs with expenses; Docket 11-0358 regarding purchase of uncollectible receivables tariff provisions; Docket 11-0383 regarding Rider TS-Transmission Service reconciliation; Docket 12-0001 regarding initiation of electric formula ratemaking through Rate MAP-P – Modernization Action Plan – Pricing; Docket 12-0244 regarding approval of AIC's AMI plan; Docket 12-0293 regarding Rate MAP-P annual update filing; Docket 13-0105 regarding approval of Rider PTR - Peak Time Rebate; Docket 13-0192 regarding gas rate design matters; Docket 13-0476 regarding revenue neutral tariff changes related to electric rate design; and Docket 14-0317 regarding Rate MAP-P annual update filing.